Performance Evaluation of Regional Rural Banks in Kerala

Synopsis

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Introduction

A sound financial system is essential for a healthy and vibrant economy and it will result in achieving a faster rate of economic growth. The banking sector constitutes a predominant component of the financial service and the performance of the economy, to a large extent, is dependent on the performance of banks. Hence the banking system occupies an important place in a nation's economy. Banks play an important role in mobilization and allocation of resources in an economy.

In a developing country like India, where propensity to consume is high and savings of people are meager, banks play a strategic role in attracting more deposits from the people and deploying these savings for lubricating various sectors of the economy. They have to supply credit to the promotional and developmental activities of the society, at the same time restricting credit for socially undesirable and economically less beneficial purposes. Availability of adequate and timely credit can go long way in improving productive capacity of the different sectors of the economy. Modern business is certainly impossible without them and no country can achieve industrial progress in the absence of a sound banking system.

Rural development has been a sine qua non in the process of accelerating the pace of economic development and significantly improving the standard and quality of living of rural house holds. Even now, majority of the rural folk in India are not able to meet their day- to day requirements from their own source of income, not to speak of other productive enterprises for improving their economic conditions.

Therefore, they have to depend on various financial agencies for arranging funds for making investments. Rural population is composed of agricultural producers, tenant cultivators, village artisans and landless labourers. All these categories are in need of credit. In such a situation, the role of credit is dynamic and of immense importance.

The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in rural areas, particularly among the economically and

socially marginalized sections. Although the co-operative banks and commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the co-operative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. The introduction of RRBs by Government of India on the recommendations of Narasimham Committee in 1975, under the Regional Rural Banks Act 1975, was a bold attempt to ensure savings and credit opportunities for rural population. These institutions established themselves as a strong alternative mechanism for rural credit delivery. Since then, RRBs have carried banking to the door steps of rural masses. They have opened branches both in remote and isolated villages which had no banking facilities before. Initially starting with 5 RRBs on 2nd October 1975, the RRBs have achieved a phenomenal growth over the years. Between 1975 and 1987, 196 RRBs were established in India and no RRBs were set up there after. As part of the reform measures taken by the government of India and RBI to strengthen the RRBs in India, the state level sponsor-wise amalgamation of RRBs started in September 2005 and as a result of this, the number of RRBs has come down to 82 as on March 2010.

Regional Rural banks appeared on the banking landscape of Kerala when two Gramin banks were established in 1976. Their appearance marked an important land mark in the history of banking development of the state in general and Malabar region in particular.

Significance of the Study

The Indian banking sector has been facing hectic competition since 1991 due to liberalization of the Indian economy. The economic and financial policies enunciated by the Central Government promoted foreign direct and indirect investments in the banking sector if India. In the new banking scenario of the liberalized world, especially with coming of the foreign banks, both the public and private sector banks of India are forced to make considerable changes in the method of operation and decision making processes

In this situation, the banking sector has to survive the extreme challenges launched by the new banking policies. There emerged an atmosphere of severe competition for survival among the public and private sector banks in the country. It appears that a large number of nationalized banks eventually started moving away from their traditional objective of serving the common people, and neglected the agrarian sector

of the economy. Needless to say in the case of private sector banks, they are only interested in serving the rich and influential categories of people. Both these groups of banks now function mainly for making profit at the expense of a certain amount of welfare motivated practices which traditionally exist in their services.

In comparison to these banks, RRBs in India play a remarkable role to promote the primary sector of the economy. Despite the influence of liberalization and privatization policies, RRBs try to retain their traditional principles and practices to serve the common people of rural India. As majority of the Indians still depends on agriculture for their every day living, existence and success of RRBs are indispensable to the country. The banking operations in Kerala reflect the general scenario of the Indian banking system. As mentioned earlier, there are two RRBs in Kerala. In spite of the acute competition in the banking sector, they are the two leading RRBs in India.

The objective of this study is to examine the performance of RRBs in Kerala. The annual reports published by these banks illustrate that they have made steady progress despite the adverse economic policies, which prevail as part of liberalization and privatization. The purpose of this research is to find out the banking tactics and modus operandi used by these RRBs to survive the contemporary challenges. It is reasonable to discuss these problems in the context of two lines of thoughts. (1) Whether these RRBs deviated from their traditional paths and principles for profit and sustenance or (2) whether they attained success by retaining the basic identity and service pattern, giving emphasis to rural areas.

Performance evaluation is an important pre-requisite for sustained growth and development of any institution, particularly financial institutions. Evaluation is the method of determining how much further and in what way it would be carried to accomplish the organizational objectives. The RRBs have an important role to play in our country as they have to act as alternative agencies to provide institutional credit in rural areas. Therefore, in the case of evaluation of performance of banks, especially RRBs it is imperative to pursue the objectives with which RRBs were established.

The present study mainly concentrates on the performance evaluation of the two RRBs in Kerala – South Malabar Gramin Bank and North Malabar Gramin Bank- and also a comparative study of their performance with each other and with RRBs at national level. Such a study is expected to bring to the fore the strength and weakness of the RRBs so that appropriate corrective measures can be taken for the rectification

of the weakness in order to make the RRBs organizationally vibrant, operationally sound, financially viable and socially relevant. The importance of the present study is that performance evaluation in this direction is a new area of research. A review of previous studies will further elucidate this fact.

It should also be noted that in general, there is an attempt to terminate the functioning of RRBs by merging them with their mother banks. It is argued that most of the RRBs are running at a loss and recovery performance is not adequate. On the contrary, RRBs in Kerala shows a unique case of success. It constitutes the second problem of this research. A study and analysis of this issue will further question the basic objective of a bank- whether it is for profit alone or for profit of the institution and welfare of the people/customers. The emerging challenges against RRBs support the former view. Hence this study is also an attempt to explicate the social role of a banking system, an essential role to help the poor that seems to have been disappearing since 1991.

Scope and coverage

The present study analyses the performance of the two RRBs in Kerala along with a comparative analysis with each other and with RRBs at the all India level for a period of 10 years from 2000-01 to 2009-10. The study analyses the performance of these RRBs in deposit mobilization, lending activities, profitability and recovery. It examines the job satisfaction of the employees of the bank and satisfaction of the customers with the services provided by these banks. Impact of these banks on the life of the rural folk also forms part of this study

Objectives of the Study

The specific objectives set for the study are:-

1. To study the significance of a specialized bank in rural area called Regional Rural Bank to provide banking service.
2. To study the performance of the Regional Rural Banks in Kerala on the basis of
    (i) Deposits
    (ii) Lending
    (iii) Profitability
    (iv) Recovery and overdue
    (v) Customer service and
    (vi) Job satisfaction of employees.

3. To study the comparative performance of South Malabar Gramin Bank (SMGB) and North Malabar Gramin Bank (NMGB)
4. To study the flow of institutional credit to agricultural and non agricultural sector by SMGB and NMGB.
5. To study the impact of liberalization and banking reforms on the performance of RRBs in India with its prime motive of establishment.
6. To study the impact of establishment of RRBs on the quality of life of the rural folk.
7. To provide suggestions and recommendations on the basis of analysis.

Hypotheses of the study

Eleven hypotheses were tested and some of them were:

1. There is no significant difference between CD ratio of RRBs in India and RRBs in Kerala.
2. There is no significant relationship between profitability and lending of RRBs in Kerala and RRBs at national level.
3. There is no significant difference between recovery performance of RRBs in India and RRBs in Kerala
4. There is no significant difference in the flow of credit to agricultural and non-agricultural sectors among the RRBs in India and RRBs in Kerala.
5. There is no significant difference in the level of job satisfaction of the employees of SMGB and NMGB
6. There is no significant difference in the level of satisfaction of the customers of SMGB and NMGB with regard to the service quality of their bank.
7. Existence of RRBs in Kerala have paved the way for improving the quality of life of the bank customers.

The Design and Methodology of the Study

The study has been made as an analytical one based on primary and secondary data and is made in two parts. In the first stage the secondary data was collected from the annual reports of the two RRBs in Kerala, publications of Reserve Bank of India, NABARD, State level Bankers Committee Reports etc. In addition to this, necessary literature and data were collected from the published and unpublished Ph-D thesis on Regional Rural Banks. Further, data was also compiled from the accounts of RRBs available at the head office of the two RRBs in Kerala. Constructive comments made

in the research articles have paved the way for acquiring reasonably good knowledge on the topic.

In the second stage, primary data was collected from the employees and customers of the bank to study the level of job satisfaction of the employees and customer satisfaction in the services of the bank. These respondents were personally interviewed with the help of structured questionnaire. Besides, relevant information was collected through discussions with managers and officials of the banks at the head office and branches.

For the collection of samples for customer survey, multi-stage sampling technique was used. As more than seventy percent branches of the two RRBs are located in Malabar area, higher representation was given to this region by selecting two districts each, selected at random from this area. From the so selected four districts five bank branches were selected at random. In order to give representation to other parts of Kerala five branches of SMGB and NMGB were selected at random from the remaining districts. Thus 30 bank branches, twenty from Malabar area and ten from non Malabar area constitute the sample banks. Ten bank customers consisting of a heterogeneous group were selected at random from each of these selected branches. Deliberate random sampling by applying cluster method was applied in selecting the samples. Thus the sample size constitutes three hundred persons from 30 branches selected at random from the operational area of the RRBs. Out of the samples selected, two third are males and one third are females.

For the collection of data from the employees for studying the level of their job satisfaction, 152 employees working all over the state were selected at random, which constitutes around 6 per cent of the total employees of these two RRBs in Kerala. Out of these, 86 employees were from SMGB and 66 were from NMGB.

Analysis of the Data

The collected data was analysed with the help of computer packages namely MS Excel, SPSS etc. Various mathematical and statistical tools like averages, standard deviation, percentages, compound growth rate, ratio analysis, ANOVA, T-test, F- test chi-square test, correlation analysis etc. were used for the analysis.

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Summary of Chapters

The first chapter deals with the introduction, nature and importance of the study. The objectives of the study, hypothesis of the study, the methodology and the survey design are mentioned in this chapter.

The second chapter gives a brief review of the earlier studies on banking in general and RRBs in particular. Studies on customer satisfaction and employees' job satisfaction in banks were also reviewed.

The third chapter explains the genesis and rationale of the Regional Rural Banks and also its growth and progress in India since its inception and during the last decade in particular. An analysis of the impact of globalization and liberalization policies and the resultant reform measures on the functioning of the RRBs in India have also been made in this chapter.

The fourth chapter analyses the performance of RRBs on Kerala which is presented in three sections. The first section evaluates the performance of South Malabar Gramin Bank and the second section deals with the performance evaluation of North Malabar Gramin Bank. The third section makes a comparative analysis of the performance of these two gramin banks in Kerala as well as RRBs in Kerala as whole and RRBs at an all India level.

The fifth chapter analyses the employees' job satisfaction based on the data collected from the employees of both the RRBs in Kerala.

The sixth chapter analyses customer satisfaction and the impact of Regional Rural Banks on the life of the rural folk. It also makes a comparative analysis of the service quality of the two RRBs in Kerala.

The final chapter "Findings, Conclusions and Recommendations" is divided in to three sections. Section A contains the summary and findings of the study, section B contains the conclusions of the study and section C includes the recommendations of the study.

Findings of the study

Important findings of the study are:

1. The total deposits mobilised by SMGB has increased from Rs. 445.62 crores in 2000-01 to RS 2865.62 crores in 2009-10 with a compound growth rate of 22.97 per cent. In the case of NMGB it has increased from RS.356.80 crores in 2000-01 to Rs 2078.72 crores in 2009-10 and has registered a compound growth rate of

21.63 per cent. Further, the total deposit of RRBs in India has increased from Rs 37027 crores to 145035 crores during this period and recorded a compound growth rate of 16.30 per cent.

2. The share of low cost deposit to total deposit of SMGB has decreased from 42.50 per cent in 2000-01 to 36.66 per cent in 2009-10. In the case of NMGB it varied between 28.67 per cent in 2002.03 and 34.78 per cent in 2003-04. But in the case of RRBs in India, it ranged between 54.71 per cent in 2005-06 and 61.22 per cent in 2006-07.
3. The loans and advances outstanding in both the RRBs in Kerala have registered a steady growth rate during the period of study. In the case of SMGB, it has increased from Rs 532.13 cores in 2000-01 to 2724.68 crores in 2009-10. For NMGB it has increased from Rs 437.68 crores to 2044.64 crores during this period. RRBs in India also showed an increasing trend in this respect and have increased from Rs 15794 crores to Rs 83562 crores during the study period.
4. The compound growth rate of loans and advances of SMGB is 19.90 per cent whereas that of NMGB is 18.68 per cent. RRBs in India registered a slightly higher rate of 20.33 per cent in this respect.
5. A sector-wise analysis of loans and advances outstanding reveals that SMGB gives more importance to agricultural credit and NMGB gives more importance to non-agricultural credit.
6. The share of agricultural credit of SMGB varied between 49.24 per cent and 62.79 per cent during the study period. But in the case of NMGB it varied between 39.54 per cent and 53.40 per cent. In the case of RRBs in India, it ranged between 44.89 per cent and 56.61 per cent during the period of study.
7. The test of significance reveals that, there exists significant difference in the CD ratio of RRBs in Kerala and RRBs at the all India level.
8. Interest income constitutes the major item of income of RRBs in Kerala as well as RRBs at the all India level. It constitutes more than 90 per cent of total income of SMGB and NMGB for majority of the years under study.
9. In the case of RRBs in Kerala as a whole, the interest expenditure has increased at a compound growth rate of 18.86 per cent where as in the case of RRBs at the national level it has increased only at a rate of 10.65 per cent during the period of study.

10. SMGB registered a compound growth rate of 5.57 per cent in their net profit where as NMGB recorded a negative growth rate of 4.87 per cent during the period of study. On other hand RRBs at the all India level recorded a compound growth rate of 13.54 per cent in their net profit.
11. The test reveals that there exists a significant difference in the recovery ratio of RRBs in Kerala and RRBs at all India level.
12. Average score obtained for different environmental factors that affect the job satisfaction of employees is more than 65 per cent in all the cases. The maximum score obtained is in respect of occupational level of the employees with 84.80 per cent and the minimum score obtained is for the promotion prospects in organization with 65.60 per cent. All other environmental factors obtained an average score of more than 77 per cent.
13. Sixty three per cent of borrowers of RRBs in Kerala who availed loans from money lenders in the past and are not availing loans at present revealed that availability of loans from the RRB is the main reason why they discontinued their habit of approaching the money lenders for financial assistance.
14. Eight six per cent respondents are of the opinion that the services of RRBs have brought socio- economic upliftment to them.
15. Regarding the total service quality, the mean satisfaction score obtained by SMGB is 115.77 with SD 10.70 and that of SMGB is 104.15 with SD 13.69.
16. Majority of RRB customers having accounts with other banks have accounts with co-operative banks and nationalized banks.
17. ATM facilities available in commercial banks and personal relations with the officials of co-operative banks are the main reasons for depositing money in the banks other than RRBs.
18. Availability of loan from co-operative societies on the personal security of the customers and higher amount of loan available from the co-operative societies on the security of gold are the main attractions that influenced the RRB customers to avail loan from such banks.

Conclusions

Some of the important conclusions emanated from the above findings are the following.

1. Compared to RRBs at the all India level, the share of low cost deposit to total deposit of RRBs in Kerala is very low. This will definitely increase the interest expenditure of the RRBs in the state, which will ultimately affect their profitability.

2. Both the RRBs in Kerala have recorded fairly good rate of growth in the lending activities. However, their growth rate is slightly lower than that of RRBs at the all India level.
3. RRBs in Kerala have given the lion's share of their lending to the priority sector and its share to total loans outstanding is more than that of RRBs at the national level. Also, priority sector lending of SMGB is better than that of NMGB.
4. The credit-deposit ratio of both the RRBs in Kerala is far better than that of RRBs at the all India level and is almost twice as that of RRBs at the national level for most of the years under study. Thus RRBs in Kerala has been functioning in conformity with the basic objectives of setting up of these banks by providing loans and advances to the weaker sections of the society. Further, there is no significant difference between SMGB and NMGB in this respect.
5. As a result of several monetary policy measures taken by Government of India and RBI to strengthen the financial viability of RRBs in India in the post liberalization period, the profits made by RRBs in India have increased significantly over the period of study. But such monetary policies have not created any impact on the profitability of RRBs in Kerala.
6. The recovery performance of RRBs in Kerala is far better than that of RRBs at all India level. RRBs in Kerala are the top level RRBs in the country with regard to the recovery performance. Further, SMGB has better recovery ratio as compared to that of NMGB.
7. Employees of RRBs in Kerala are very well satisfied with respect to the environmental factors affecting job satisfaction of employees.
8. Majority of the borrowers fully utilized the loan for the purpose for which it was sanctioned. Instances of misutilisation of loan are greater in the case of agricultural gold loans.
9. The existence of the two RRBs in Kerala is instrumental in curtailing the rural customers from availing of loans from money lenders. The RRBs have brought socio-economic development among the rustics of the state, especially in the northern part.
10. There exists significant difference in the satisfaction levels of the customers of NMGB and SMGB with respect to the various dimensions of service quality and the customers of NMGB are more satisfied with the services of their bank.

Suggestions

Important suggestions are appended below:

1. RRBs in Kerala can be described as a banking system aimed at the welfare of the common people. Therefore, vibrant service operations of these banks are essential to the people in a period when the public and private banks neglect the downtrodden. So the government should take initiatives to strengthen these banks and expand their operations to other areas where the facility of these banks are not available.
2. RRBs have to make earnest efforts to promote the mobilization of rural deposits. Deposit campaigning can be organized with wide publicity at the appropriate times especially festivals, harvesting and marketing of crops and other occasions.
3. The core banking system in the RRBs is not adequate at present. It is necessary to establish network computerization and online transaction, especially in town branches. ATM system should be introduced in all branches. All these will attract more deposit in the bank and ensure quick disposal of transactions.
4. To avoid unnecessary competition, RBI should make a policy for transfer of business from rural branches of commercial banks to RRBs. This will make a shift of business of rich farmers from commercial banks to RRBs, which will be helpful to increase profit of RRBs and at the same time it will avoid wasteful competition between the commercial banks and RRBs.
5. RRBs should take steps to increase their non-interest income by way of service charges on collection of cheques and bills, giving guarantees, locker facility etc.,
6. Though the RRB employees have been given salaries on par with nationalized banks, the other benefits for nationalized bank employees may also be provided to them.
7. The nomination of government officials or active politicians may hinder the smooth working of the board of directors of RRBs. Only officials having some knowledge and experience in rural economics and banking can prove to be better. Hence, this may be duly taken care of while making nominations.
8. Sponsor wise amalgamation of RRBs at the state level which started in 2004-05 made significant improvement in the profitability and viability of RRBs in India. As the two RRBs functioning in Kerala are sponsored by two different commercial banks such amalgamation policy has not affected the functioning of the RRBs in the state. So the government should consider the amalgamation of these two RRBs in to a state level rural bank by retaining the interest of both the sponsor banks. Such a

move will definitely reduce the transaction costs and will be helpful to increase the profitability and viability of the bank. The proposed RRB should be made as a specialized institution for rural areas and should be allowed to conduct all government transactions in rural areas. Further, such a state level bank can provide modern facilities in the banking system like core banking, internet banking, ATM facilities etc., all these will boost the confidence of the depositors and thereby increase the deposit which will result in increase in credit available to the rural masses. This increased flow of credit in to the rural areas will lead to the socio-economic upliftment of the rustics which will pave the way for the overall development of the state.